
INTRODUCTION TO THE BUDGET DOCUMENT



**CITY OF TAKOMA PARK
MUNICIPAL OFFICIALS**

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Councilmembers

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Heather Mizeur, Ward 2

Bruce R. Williams, Ward 3

Terry J. Seamens, Ward 4

Marc Elrich, Ward 5

Doug Barry, Ward 6

City Manager

Barbara B. Matthews

Deputy City Manager

T. Wayne Hobbs

Community and Government Liaison

Suzanne Ludlow

Management Team

Ellen Arnold-Robbins, Library

Yovonda Brooks, Finance

Jessie Carpenter, City Clerk

Abel Castillo, Information Systems

Cindy Creamer, Police

Sara Daines, Housing and Community Development

Karen Hampton, Human Resources

Debra Haiduven, Recreation

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The City of Takoma Park



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Barbara B. Matthews,
City Manager

April 25, 2005

Members of the Takoma Park City Council:

I am pleased to present for your review and consideration my recommended budget for Fiscal Year ("FY") 2006 for the City of Takoma Park. The proposed budget represents the culmination of considerable work by the Management Team and other staff members, and I wish to take this opportunity to express my appreciation to them. I would particularly like to acknowledge the contributions made by Deputy City Manager Wayne Hobbs and former Treasurer Linda McKenzie, who were instrumental in the development of this budget.

In developing the proposed budget for FY06, I strived to meet certain key objectives. These objectives are as follows:

- Maintenance of adequate financial reserves to avoid any disruption in services caused by a decline in a significant revenue source and to address timing differences in the receipt of monies
- Continuation of the current level of services to the community
- Maintenance of the City's vehicle/equipment fleet and its infrastructure
- Reduction in the City's real property tax rate, in accordance with prior direction from the City Council

As a service business, the vast majority of the City's operating costs is personnel related. Consequently, it is difficult to achieve a significant reduction in costs without reducing staff and ultimately service levels. My recommended budget attempts to balance the aforementioned objectives, which have the potential to be mutually exclusive to some degree.

The FY06 budget accounts for the City's financial activities through four primary funds or fiscal entities. They are the General Fund, the Storm Water Management Fund, the Special Revenue Funds (comprised of several sub-funds), and the Community Center Fund. Combined expenditures for all funds total \$20,078,016. FY06 revenues total \$18,188,871, with the balance comprised of fund balance monies from the various funds.

This budget transmittal letter includes a brief overview of each of these funds and provides information on anticipated revenues and expenditures for FY06.

GENERAL FUND

The General Fund accounts for the day-to-day operational activities of the City, such as police protection, snow removal, and general administration. Departmental activities included in the General Fund are as follows:

- General Government
- Police
- Public Works
- Recreation
- Housing and Community Development
- Communications
- Library

In addition to the aforementioned operational activities of the City, the General Fund also provides for certain expenditures that are not related to a particular department. These expenditures, classified as "non-departmental" for budgetary purposes, include general liability and other insurance coverage as well as financial support of various City boards/commissions and community events.

The General Fund also provides for principal and interest payments on the City's outstanding debt obligations. These obligations, which were incurred as a result of long or short-term borrowing or lease financing, are accounted for in the debt service division of the General Fund.

The City's capital expenditures are recorded in the General Fund. These expenditures include purchase of vehicles and equipment as well as the cost of infrastructure-related projects, including street improvements. Certain monies are set aside for the scheduled replacement of vehicles and equipment, which are accounted for in the Equipment Replacement Reserve.

Revenues

Major revenue sources for the General Fund are taxes and utility fees and intergovernmental revenues. Revenues derived from real property taxation provide a significant portion of the City's operating revenues. Tax duplication payments from Montgomery County also provide a significant portion of General Fund revenues. Commonly referred to as "rebates," these payments are intended to compensate Takoma Park for those services that would be provided by Montgomery County if the City did not provide them. Other General Fund revenues are derived from licenses and permits, fines and forfeitures, investment earnings, and miscellaneous fees and charges.

The following table summarizes projected General Fund operating revenues for FY06 by source. Budgeted and estimated revenues for FY05 are provided for comparative purposes.

Revenue Source	Budgeted FY05	Estimated FY05	Proposed FY06
Taxes and utility fees	\$ 9,230,984	\$ 9,421,297	\$10,153,346
Licenses and permits	46,000	81,854	66,854
Fines and forfeitures	162,500	165,700	162,000
Use of money and property	123,000	105,252	106,000
Charges for service	621,500	559,300	620,000
Intergovernmental	3,927,280	3,890,513	4,368,721
Miscellaneous	104,333	214,798	139,033
Total Revenues	\$14,215,597	\$14,438,714	\$15,615,954

Like other municipalities in the metropolitan area, the City has experienced significant increases in property valuation. As a result, revenue generated by real property taxation has resulted in considerable revenue gains to the City although the tax rate has remained unchanged for several years. According to the Maryland Department of Assessments and Taxation, the City's assessable real property base (net) is projected to increase by approximately \$110 million, or 10.6 percent from FY05 to FY06.

Cognizant of our residents' concerns about increasing tax burdens, the staff diligently worked to keep expenditures as low as possible to achieve a reduction in the real property tax rate in FY06. The proposed budget reflects a tax rate of \$0.645 per \$100 of assessed valuation, a reduction of one and one-half cents.

Real property taxation constitutes the single largest source of the City's operating revenues; this source is projected to generate \$7,419,963, which equates to 47.5 percent of total operating revenues in FY06. Because of the increase in the City's assessable property base, real property tax revenues are projected to increase by \$605,670 compared to FY05 budgeted revenues even with the proposed reduction in the tax rate.

In reviewing General Fund revenues for FY06, there are several additional areas that I would like to emphasize. These areas are as follows:

- Highway user revenues are projected to increase by \$242,372 compared to the FY05 budget. The projected increase is based on information received from the Maryland State Highway Administration.
- Income tax revenues are anticipated to increase by \$90,000 compared to the FY05 budget.
- Tax duplication payments from Montgomery County are expected to total \$2,976,470. This represents an increase of \$381,413, or 14.7 percent, compared to the FY05 budget. Tax duplication payments are estimated to provide 19.1 percent of General Fund revenues in FY06.

Expenditures

The proposed budget reflects total General Fund expenditures of \$16,987,226. The following table summarizes projected expenditures for FY06 by department/budget unit. Budgeted and estimated expenditures for FY05 are provided for comparative purposes.

Department/Budget Unit	Budgeted FY05	Estimated FY05	Proposed FY06
General Government	\$ 1,766,449	\$ 1,892,336	\$ 1,929,889
Police	4,430,447	4,309,791	4,708,781
Public Works	3,208,734	3,218,671	3,420,064
Recreation	1,045,394	919,348	1,109,234
Housing & Comm. Development	994,607	925,909	1,064,691
Communications	326,160	320,209	347,919
Library	817,766	744,108	866,172
Non-departmental	1,217,120	787,048	1,034,972
Capital outlay	2,569,000	734,030	1,613,020
Debt service	312,735	345,719	892,484
Total Expenditures	\$16,688,412	\$14,197,169	\$16,987,226

The combined operational costs of the Police Department and the Public Works Department constitute the majority of General Fund expenditures, accounting for 47.9 percent of total

expenditures. Capital outlay funding, which includes the purchase of vehicles and equipment and infrastructure-related projects, represents an additional 9.5 percent.

As noted earlier in this transmittal message, the vast majority of the City's operating costs is personnel related. The proposed budget for FY06 reflects increased salary costs of \$200,500, which are attributable to market adjustments, step increases, and merit adjustments. Health insurance costs for City employees are expected to increase 11.0 percent, at a cost of \$95,599.

Relative to other General Fund expenditures for FY06, I would like to highlight the following areas:

- Worker's compensation insurance costs are projected to increase by 20.0 percent, at a cost of \$72,350.
- The proposed budget places a high priority on employee training and development, with funding of \$50,000 for this purpose reflected in the Non-Departmental budget unit. A citywide customer service training program will get underway during the fiscal year; a train-the-trainer approach will be utilized.
- The Housing and Community Development Department's budget includes \$25,000 for affordable housing initiatives.
- The City's debt service costs will increase by \$579,749 compared to the FY05 budget. The first full year of debt service for the FY05 street improvement loan is reflected in the proposed budget. Additionally, the City will make its initial payment on the FY05 Community Center bond issue. The actual debt service payment for the bond issue will not be known until the bond sale occurs in May. Funding in the amount of \$205,000 has been included in the proposed budget for this payment.
- Street improvements, reflected in the Capital Outlay budget unit, are anticipated to total \$1,127,147. Of this amount, \$1.0 million represents monies from the loan proceeds received in FY05.
- The Capital Outlay budget includes funding in the amount of \$25,000 for pedestrian safety initiatives.
- The Capital Outlay budget includes funding in the amount of \$20,000 for the continued implementation of the Gateway Wayfinding Signage System.
- A contribution of \$100,000 to the Equipment Replacement Reserve is proposed to ensure funding for the future replacement of equipment and vehicles.

Like other service industries, the City's operating expenditures are largely comprised of personnel costs. In order to attract and retain a quality work force, these costs will continue to increase over the years, barring any change in service levels. Given our residents' concerns about rising property valuations and the resulting increase in taxes, further community discussion about the desired level of services is warranted.

Fund Balance

A key element of the budget is the projected ending fund balance. Fund balance represents the accumulation of the difference between actual revenues and expenditures. The source and timing of revenues, as well as the stability of revenue sources, dictate the level of fund balance necessary to avoid cash shortages in normal day-to-day operations.

The General Fund is anticipated to begin FY06 with a fund balance of \$4,556,357. Some of the monies reflected in this amount are designated for specific purposes and are not available for operating purposes. For example, the projected fund balance as of June 30, 2005 includes approximately \$2,000,000 in proceeds from the street loan that occurred in FY05.

The General Fund fund balance also includes monies that are restricted in accordance with the Charter of the City of Takoma Park. As noted earlier in this transmittal message, certain monies are set aside for the scheduled replacement of vehicles and equipment, which are accounted for in the Equipment Replacement Reserve. Additionally, a portion of the fund balance is reserved for use only in the case of an emergency; these monies are set aside in the Emergency Reserve.

The proposed budget assumes the use of \$1,374,581 in fund balance monies. Of this amount, \$1,000,000 represents the anticipated expenditure of street loan monies in FY06. An operating transfer of \$3,309 will be made from the General Fund to the Special Revenue Funds as a match for grants received by the City. The balance of \$371,272 will be used to make up the difference between operating revenues and expenditures during the fiscal year.

As of June 30, 2006, the General Fund is projected to have a fund balance of \$3,181,776. Included in this amount are the unexpended balance of the street loan proceeds as well as the monies designated for the Equipment Replacement Reserve and the Emergency Reserve. Combined, these restricted funds are projected to total approximately \$2,200,000.

In accordance with the Charter of the City of Takoma Park, the FY06 budget includes two contingency accounts. Combined, these accounts equal 2.5 percent of budgeted revenues and are budgeted in the non-departmental unit of the General Fund. For the purpose of projecting the fund balance as of June 30, 2006, I have assumed expenditure of the full amount of the contingency accounts during the fiscal year. If these monies are not expended, the projected fund balance will increase by approximately \$390,000.

STORM WATER MANAGEMENT FUND

The City is responsible for providing storm water management services within its corporate boundaries. These services, which are directed by the Public Works Department, include the construction and the maintenance and repair of storm drains, inlets, channels, and ditches. Additionally, the City ensures compliance with state and federal requirements for erosion and pollution control associated with storm water run-off.

Revenues

All property owners in the City pay a fee that is based on the amount of impervious surface on the property. Each single-family residential dwelling unit is billed at a flat rate equal to the average amount of impervious surface on a single-family lot (1,228 square feet). In FY05, the fee for a single-family residential dwelling unit was \$28.68.

The proposed budget for FY06 assumes the continuation of the present fee structure. Given the age of the City's system, some adjustment in the fee structure may be warranted in the near future. Staff will be reviewing this issue in FY06.

The majority of fund revenues are derived from storm water management fees paid by property owners in the City. Other Storm Water Management Fund revenues are derived from permit fees, late fees, interest charges, and investment earnings.

The following table summarizes projected Storm Water Management Fund revenues for FY06 by source. Budgeted and estimated revenues for FY05 are provided for comparative purposes.

Revenue Source	Budgeted FY05	Estimated FY05	Proposed FY06
Licenses and permits	\$ 2,000	\$ 28,468	\$ 2,000
Use of money and property	2,100	1,000	1,000
Charges for service	220,000	210,000	210,000
Total Revenues	\$224,100	\$239,468	\$213,000

Expenditures

The proposed budget reflects total Storm Water Management Fund expenditures of \$228,000. The following table summarizes projected expenditures for FY06 by classification of expenditure. Budgeted and estimated expenditures for FY05 are provided for comparative purposes.

Classification of Expenditure	Budgeted FY05	Estimated FY05	Proposed FY06
Public Works	\$115,383	\$ 86,697	\$138,325
Capital Outlay	119,054	184,292	89,675
Total Expenditures	\$234,437	\$270,989	\$228,000

Fund expenditures include 50 percent of the personnel cost of the City Engineer, who directs the City's storm water management activities. Costs associated with the maintenance and repair of the City's storm water system as well as capital projects are also accounted for in the Storm Water Management Fund.

Fund Balance

The Storm Water Management Fund is anticipated to begin FY06 with a fund balance of \$121,504. The proposed budget assumes the use of \$15,000 in fund balance monies, resulting in projected fund balance of \$106,504 as of June 30, 2006.

SPECIAL REVENUE FUNDS

The City receives a variety of grants that provide funding for law enforcement, community revitalization, parks development, and infrastructure improvements. The City utilizes Special Revenue Funds to account for revenue and expenditure activity attributable to the specific project funded by these grants.

Revenues

The following table summarizes projected Special Revenue Fund revenues for FY06 by source. Budgeted and estimated revenues for FY05 are provided for comparative purposes.

Revenue Source	Budgeted FY05	Estimated FY05	Proposed FY06
Intergovernmental	\$1,064,200	\$940,998	\$1,552,552
Use of money and property	0	400	0
Total Revenues	\$1,064,200	\$941,398	\$1,552,552

Grants will be received from the following entities and/or programs in FY06:

- State Highway Administration
- Public Works Board
- Community Legacy Program
- Community Development Block Grant Program
- Program Open Space
- Office of Community Oriented Policing Services

Expenditures

The proposed budget reflects total Special Revenue Fund expenditures of \$1,463,275. The following table summarizes projected expenditures for FY06 by department. Budgeted and estimated expenditures for FY05 are provided for comparative purposes.

Department	Budgeted FY05	Estimated FY05	Proposed FY06
General Government	\$ 132,000	\$ 162,052	\$ 100,000
Police	287,789	190,661	310,000
Public Works	217,950	564,935	1,025,775
Recreation	132,500	34,850	27,500
Housing & Comm. Development	317,050	67,500	0
Total Expenditures	\$1,087,289	\$1,019,998	\$1,463,275

Specific projects and programs to be funded with grant monies during FY06 include the following:

- Carroll Avenue streetscape enhancements
- Collaborative Supervision and Focused Enforcement (CSAFE) Program
- Technological enhancements in the City's law enforcement capabilities

COMMUNITY CENTER FUND

The Community Center Fund accounts for revenue and expenditure activity attributable to construction of the facility. It became part of the City's financial structure in FY03.

As of the date of this transmittal message, construction of the first phase of the project is still underway. This phase construction of the Municipal Building addition and the Computer Learning Center and the demolition and renovation of the upper level of the Municipal Building. Work also includes completion of the Police Department on the first level.

The next stage of the Community Center project will get underway in FY06. Administrative offices located on the main level of the Municipal Building will be renovated for use as

community center space. Bids for this work will be received in May 2005, with construction likely to begin shortly after the start of the new fiscal year.

Revenues

The City has utilized intergovernmental revenues and other financing sources to fund the Community Center project. Other financing sources commonly include proceeds from short or long-term borrowing as well as operating transfers from another fund. Information on budgeted and estimated revenues and other financing sources for FY05 is provided for comparative purposes.

Revenue/Financing Source	Budgeted FY05	Estimated FY05	Proposed FY06
Intergovernmental	\$3,981,815	\$2,597,863	\$ 807,365
Loan proceeds	\$ 0	\$2,500,000	0
Operating transfers in	1,332,346	401,696	400,000
Total Revenues	\$5,314,161	\$5,499,559	\$1,207,365

Loan proceeds reflect the upcoming bond issuance of \$2,600,000. I have assumed issuance costs of \$100,000, resulting in net proceeds to the City of \$2,500,000. A budget amendment to account for the bond issue will be submitted to the City Council prior to the end of the fiscal year.

The City is in the process of selling two properties it owns that are located on Piney Branch Road. The proceeds from the sale will be accounted for in the General Fund. In accordance with the City Council's decision to utilize the monies for the Community Center project, an operating transfer will be made from the General Fund to the Community Center Fund upon completion of the real estate transaction. The transfer was budgeted to occur in FY05 but is now anticipated to take place in FY06.

Expenditures

The proposed budget reflects total Community Center Fund expenditures of \$1,399,515. The following table summarizes projected expenditures for FY06 by classification of expenditure. Budgeted and estimated expenditures for FY05 are provided for comparative purposes.

Classification of Expenditure	Budgeted FY05	Estimated FY05	Proposed FY06
General Government	\$ 77,732	\$ 78,219	\$ 42,943
Capital Outlay	5,236,429	5,800,000	1,356,572
Total Expenditures	\$5,314,161	\$5,878,219	\$1,399,515

General Government expenditures reflect the personnel cost of the City's project manager. For budgetary purposes, I have assumed that the Community Center project is completed as of December 31, 2005. Upon completion of the facility, it is anticipated that the employee will provide assistance to the City Engineer in the management of capital projects; consequently, six months of the personnel costs for this individual are reflected in the Public Works Department budget.

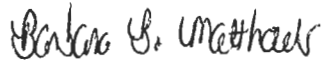
The proposed budget assumes that the phase of the project that is currently underway will be substantially complete as of June 30, 2005. The actual completion date will determine the flow of expenditures, so some adjustment in the projected FY06 expenditures may need to be made as more information becomes available.

SUMMARY

Adoption of the City's budget is the most important action that the City Council takes each year. The budget represents the City Council's priorities in regard to the delivery of municipal services. It also serves to communicate valuable information regarding the City's current and future financial condition to our residents and to the financial community.

The staff and I look forward to working with you to finalize a budget for FY06 that meets the needs of Takoma Park residents.

Sincerely,

A handwritten signature in black ink, appearing to read "Barbara B. Matthews".

Barbara B. Matthews
City Manager

RECONCILIATION FROM PROPOSED TO APPROVED BUDGET

During the course of the budget process, certain modifications were made to the proposed budget submitted by the City Manager. Some changes resulted from new or updated information received since submission of the proposed budget while others were directed by the City Council.

The table below reflects the changes made to the City Manager's proposed budget in terms of revenues:

Fund	Revenue Source	Proposed Budget	Approved Budget	Variance
General	Real Property	\$7,419,963	\$7,247,406	(\$172,557)
General	Personal Property	370,875	367,425	(3,450)
General	RR and Public Utilities	161,250	159,750	(1,500)
General	Hotel-Motel Tax	55,000	65,000	10,000
General	Police Protection (State)	388,375	450,000	61,625
General	Day Laborer Grant	0	39,000	39,000
General	Inspection Fees	260,000	220,000	(40,000)
Total				(\$106,882)

The following table reflects the changes made to the City Manager's proposed budget in terms of expenditures:

Fund	Department	Proposed Budget	Approved Budget	Variance
General	Police	\$4,708,781	\$4,613,481	(\$95,300)
General	Housing & Comm. Dev.	1,064,691	1,076,921	12,230
General	Non-Departmental	1,034,972	1,030,976	(3,996)
General	Capital Outlay	1,613,020	1,576,020	(37,000)
Sub-Total - General				(\$124,066)
Community Center	Capital Outlay	1,399,515	1,437,087	37,572
Total				(\$86,494)

City of Takoma Park, Maryland

